

SUMMARY ANALYSIS OF AMENDED BILL

Author: Duvall/Nakanishi Analyst: Jennifer Bettencourt Bill Number: AB 1040
 Related Bills: See Prior Analysis Telephone: 845-5163 Amended Date: March 28, 2007
 Attorney: Tommy Leung Sponsor: _____

SUBJECT: Medical Care Costs Deduction

- ☒ DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced February 22, 2007.
- ☒ AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.
- _____ AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced/amended _____.
- _____ FURTHER AMENDMENTS NECESSARY.
- _____ DEPARTMENT POSITION CHANGED TO _____.
- ☒ REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED February 22, 2007, STILL APPLIES.
- ☒ OTHER – See comments below.

SUMMARY

This bill would allow a deduction for medical care expenses.

SUMMARY OF AMENDMENTS

The March 28, 2007, amendments added language that would disallow any other deduction for the same expenses. In addition, definitions are added for several terms used in the bill. As a result of the amendments, the "Implementation Considerations" identified in the department's analysis of the bill as introduced February 22, 2007, have been resolved, and the revenue impact has changed. Accordingly, new "This Bill" and "Economic Impact" discussions are provided. The remainder of the department's analysis of the bill as introduced February 22, 2007, still applies.

Board Position:

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 _____ SA _____ O _____ NAR
 _____ N _____ OUA ☒ PENDING

Legislative Director

Date

Brian Putler

4/30/07

THIS BILL

This bill would allow a deduction equal to the cost of medical care not compensated by insurance or otherwise paid or incurred during the taxable year for the taxpayer, the taxpayer's spouse, or the taxpayer's dependents.

The deduction would be allowed as an "above the line" deduction in computing the taxpayer's adjusted gross income.

This bill defines the following terms:

- "Taxpayer" means any person subject to the tax imposed by Part 10, Division 2, of the Revenue and Taxation Code (R&TC).
- "Dependent" has the same meaning as ascribed to that term by section 17056 of the R&TC, and Appendix I provides the definition.
- "Medical care" has the same meaning as ascribed to that term by section 213(d) of the Internal Revenue Code. The general definition includes amounts paid for diagnosis, cure, and treatment, certain transportation & lodging costs, qualified long term care services, certain insurance premiums and co-pays, and prescribed drugs.

In addition, this bill would specify that any deduction allowed by this section would be in lieu of any other deduction otherwise allowable for the same expenses.

ECONOMIC IMPACT

Revenue Estimate:

This bill would result in the following revenue losses:

Revenue Impact Of AB 1040 As Amended March 28, 2007 Enactment Assumed After June 30, 2007 (\$ in Billions)			
	2007-8	2008-9	2009-10
Premium Expense	-\$0.20	-\$1	-\$1.5
Medical Expense	-\$0.30	-1.5\$	-\$2.3
Total Revenue Impact	-\$0.50	-\$2.50	-\$3.80

This estimate does not account for changes in employment, personal income, or gross state product that could result from this bill.

Revenue Discussion

Using national and state health care data, the out-of-pocket medical expenses for 2008 are projected to be approximately \$30 billion. This figure includes such items as co-payments and insurance premiums. Total health insurance premiums are projected to be \$23 billion for 2008. Premiums paid to cafeteria plans by employees are not included in an employee's gross income and cannot be deducted at the federal level; it is assumed these amounts would not be deductible under this bill and are not included in this estimate. Assuming a marginal tax rate of 6%, the revenue impact of this bill for 2008 would be approximately \$3 billion calculated as follows:

Total health care spending = \$30 billion + \$23 billion = \$53 billion
Revenue impact at 6% = $0.06 \times \$53 \text{ billion} = \$3 \text{ billion (rounded)}$

Under current law, taxpayers can deduct medical expenses in excess of 7.5% of their adjusted gross income. Using tax return data and the department's personal income tax model, the current revenue impact of allowing the existing deduction is approximately \$200 million. As amended, the bill would disallow any other deduction for the same expenses that the proposed deduction would allow. As a result, the net revenue impact is reduced to \$2.8 billion (\$3 billion - \$200 million) for 2008.

The numbers in the table above have been adjusted to reflect revenue estimates for fiscal years.

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APPENDIX I

A dependent is defined as a qualifying child, or a qualifying relative, and must meet the following requirements:

Qualifying Child

- Must be a taxpayers' birth child, stepchild, adopted child, eligible foster child, brother, sister, half brother, half sister, step brother, step sister,
- Must be under 19 years of age or a full-time student under 24 years of age,
- Must live with the taxpayer for more than half of the year
- Must not have provided more than one-half of their own support for the calendar year.

Qualifying Relative

- Live for the entire year as a member of the household, or
- Have a specific relationship to the taxpayer including:
 - Birth child, stepchild, adopted child, or eligible foster child, grandchild, son-in-law, daughter-in-law, brother-in-law,
 - Brother, sister, half brother, half sister, step brother, step sister, brother-in-law, sister-in-law,
 - Parent, stepfather, stepmother, father-in-law, mother-in-law, grandparent,
 - Uncle, Aunt, Nephew
- Must have gross income for the calendar year less than the exemption amount for the current taxable year (\$3,300 for 2006 taxable year).
- The person must not have provided more than one-half of their own support for the calendar year.

A taxpayer will not be able to claim an individual as a dependent if their dependent files a joint return for the taxable year, or if they are not a citizen or national of the United States. However, if the dependent is an adopted child, and the taxpayer is a citizen or national of the United States, that child would qualify as a dependent.